WORKSHOP MATERIAL

Workshop: Long Term Plan – Financial Strategy, Revenue and Financing Policy

Date: Tuesday, 18 July 2023

Item	Released Information
1.	LTP 2024-2034 – Presentation

LTP 2024-2034

18 July 2023

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Purpose of today

Seek further direction on:

- Emergency Funds
- Revenue & Finance Policy
- Financial Strategy -Dynamic Financial Caps

The LTP Jigsaw

Emergency Fund Policy

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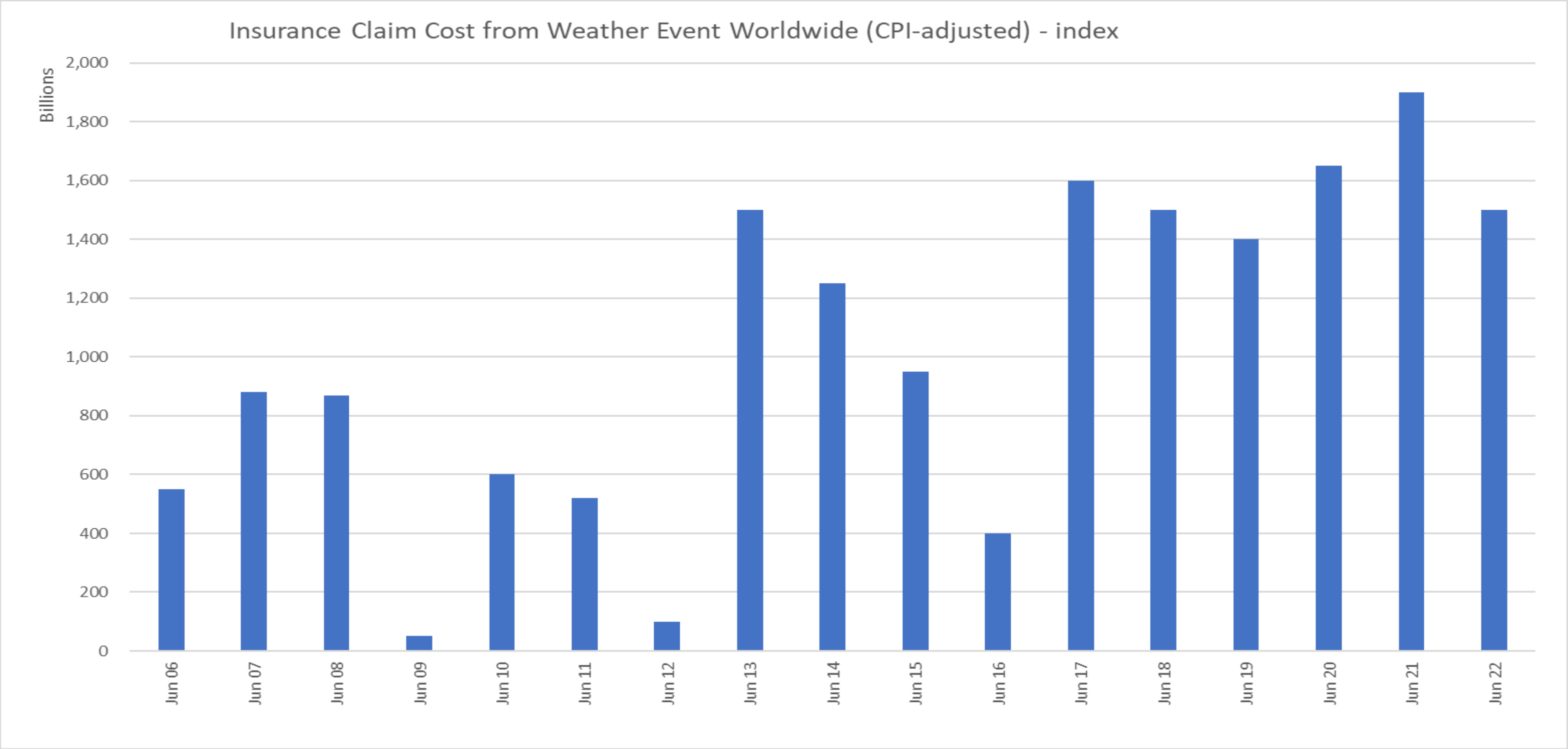
Climate change means more costly repairs

- Climate change is causing greater and more regular adverse weather events
- The costs for responding to these events have increased and will continue to increase in the future.
- Council infrastructure is damaged from these events – mainly roading and rivers.
- While we do receive funding from central government, the Council has to pay to fix its infrastructure.

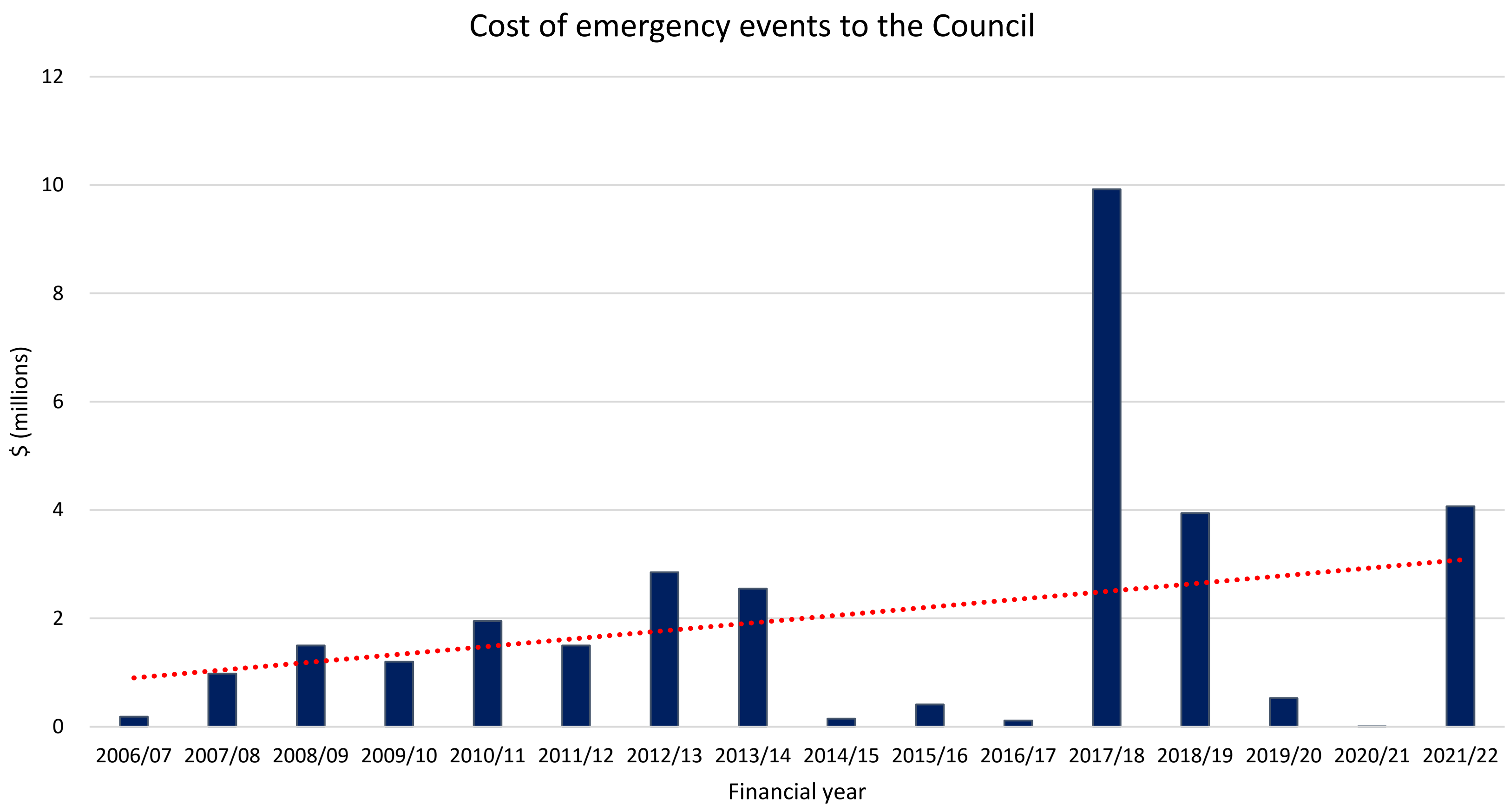
Event	Cost to Council
Cyclone Gita/Fehi	$13M
July 2021 weather events	$4.2M
August 2022 weather events	$5.4M

Events are costing more for our community...

These emergency events are becoming more prolific in both New Zealand and the World.



...and costing us more too



Average of $2.4M per year over the last 10 years

Our response

- There are two primary ways to fund for event repairs – debt funding (borrowing) and forward funding (setting money aside before the event). The Council has done both in the past.

- The Council has "Disaster Reserve Funds" – money set aside to repair our infrastructure in the case of an event. We have an Emergency Event Funding Policy.

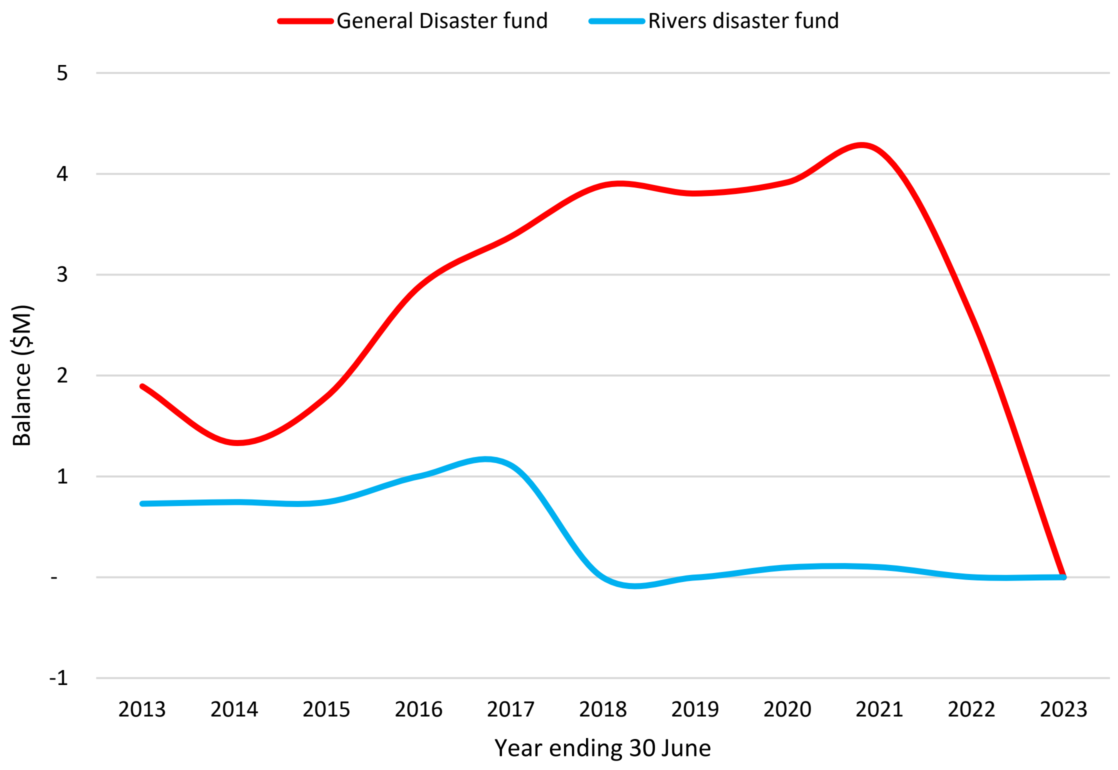
- The Council decided for the 2021 LTP to discontinue annual contributions to the funds until 2024/2025. As a result, at the end of the 2022/2023 most of our reserve funds were exhausted.

- Insurance capacity is reducing, premiums are rising sharply as are deductibles.

- Without increasing its contributions, Council will need to borrow more on a regular basis to pay for repairs. This is likely to be unsustainable given our limited borrowing headroom.

The pool of funds is almost dry

Fund	Balance (June 2023)
General Disaster	$0
Rivers	$0
Roading	$0
Wastewater	$396K
Water	$175K
Parks and Reserves	$203K
Stormwater	$692K
Total	**$1.47M**



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Maximum probable loss

- Our current policy sets a maximum limit for each fund that we have. We rate to build the funds up to this maximum level and stop rating once they are at the cap.
- There is a need to review (1) the maximum limit and (2) how quickly we get there given likely demands on the reserve.
- In 2018, we set our maximum limit for all the funds combined at $12.6M (plus annual inflation adjustment).
- This was based of loss adjustor report from Tonkin and Taylor from 2015. Staff suggest that we wait until we know what is happening with Three Waters before updating this report.
- Applying LGCI inflation figures, the maximum limit is now approximately $15.1M across all the funds

Fund	Max limit (2018)	Max limit (2024)
General Disaster	$7.80M	$9.25M
Rivers	$1.10M	$1.30M
Roading	$2.00M	$2.37M
Wastewater	$0.50M	$0.59M
Water	$0.50M	$0.59M
Parks and Reserves	$0.20M	$0.42M
Stormwater	$0.50M	$0.59M
Total	**$12.6M**	**$15.11M**

A potential approach to achieving $15m

	Balance at 1 July ($)	Contribution ($)										Balance at 1 July ($)	Max limit ($)
Fund	2023/2024	2024/2025	2025/2026	2026/2027	2027/2028	2028/2029	2029/2030	2030/2031	2031/2032	2032/2033	2033/2034	2034/2035	2034/20352
General Disaster	0	400K	800K	800K	800K	800K	800K	800K	800K	800K	800K	9.4M	9.3M
Rivers	0	100K	200K	200K	200K	200K	65K	0	0	0	0	1.3M	1.3M
Roading	0	335K	670K	670K	0	0	0	0	0	0	0	2.4M	2.4M
Wastewater	396K	46K	92K	92K	92K	92K	0	0	0	0	0	585K	590K
Water	175K	27K	54K	54K	54K	54K	54K	54K	54K	54K	0	588K	590K
Parks and Reserves	203K	18K	35K	35K	35K	35K	35K	35K	35K	35K	35K	423K	420K
Stormwater	692K	24K	47K	47K	47K	47K	47K	47K	47K	47K	47K	591K	590K
Total	**1.5M**	**949K**	**1.9M**	**1.9M**	**1.2M**	**1.2M**	**1.0M**	**936K**	**936K**	**936K**	**882K**	**15.2M**	**15.1M**

Note: this does not account for the cost of events that may occur. Final balance accounts for interest gained. The initial contribution (2024/2025) is a 1% rates increase (approximately).

How do we build the fund back up?
How quickly can we achieve that?

Direction from Councillors needed:

1. Do we set aside funds (forward fund) or should we rely entirely on borrowing (fully debt fund)?

2. Do we use a blended approach where we build the fund up and rely on borrowing to supplement it for large events?

3. In building the funds, how quickly should we do so?

Updated supported policies

Policies:

- 2018 Emergency Event Funding Policy
- Proposed 2023 Emergency Event Funding Policy

Changes have been highlighted in the 2023 version. Both have been circulated alongside this presentation.

We value your feedback on the proposed policy.

Next steps

- Changes to the policy are considered to be of low significance, so we propose that Council does not to do separate consultation.
- The level of funding we put aside each year will be publicly consulted on as part of the LTP and future Annual Plans.
- If Councillors are happy with the direction of the proposed changes, that the revised policy be referred to Council for formal approval.

Revenue & Financing Policy

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Revisit outcomes of 18 April 2023 Workshop

What we heard	Action taken
Interest in looking at options for changing the UAGC, and what impact this would have on different ratepayers.	Analysis using the Annual Plan 2023/24 figures as a base has been undertaken. Note: the 30% LGRA cap
Interest at looking at opportunities for combining fixed, per property rates	Analysis using the Annual Plan 2023/24 as a base for options identified.

Note re UAGC: The three yearly property revaluation will also shift the incidence of rates. The high-level impact of the revaluation is currently anticipated to be presented to Council in December.

UAGC – General Information

The UAGC was last increased in 2013/14 when it increased from $288.78 per property to $290 per property.

If the UAGC was still 17.22% of the General Rate, the UAGC would be $340 per property

General Rates	2013/14	2016/17	2019/20	2022/23	2023/24
UAGC as a percentage of general rates over time	17.22%	16.12%	14.84%	13.24%	12.06%

General Rates	2013/14	2016/17	2019/20	2022/23	2023/24
UAGC if it had been inflation (LGCI) adjusted ($)	$295	$302	$315	$365	$372
UAGC as a percentage of general rates if inflation adjustment had been applied	17.50%	16.78%	16.12%	16.64%	15.48%

Impact of affordable water reform

Using Annual Plan 2023/24 as a base, removing all rates income linked to the Affordable Water Reform based on our current understanding of the legislation:

- circa 24% of the 30% cap on fixed charges with the UAGC at $290
- circa 25% of the 30% cap on fixed charges with the UAGC at $340

The 30% cap is legislated by the Local Government (Rating) Act 2002, and states that rates revenue from the UAGC, and targeted rates set on a uniform basis must not exceed 30% of total revenue. Targeted rates set solely for water supply or sewage disposal are excluded from the 30% calculation.

Impact on representative properties

This is the increase/(decrease) for the four representative properties with the lowest capital value. This shows the General Rate, and UAGC ($290 currently) combined and excludes all other targeted rates.

Representative Property	Capital Value	UAGC @ $205	UAGC @ $245	UAGC @ $290	UAGC @ $340	UAGC @ $375
Residential - Murchison, with 131m³ of water, Urban Water Supply Metered Connections	$265,000	($60)	($32)	$0	$35	$60
Residential - Richmond (Waimea Village), with 29m³ of water, Urban Water Supply Metered Connections	$385,000	($48)	($26)	$0	$28	$48
Residential - Takaka	$465,000	($41)	($22)	$0	$24	$41
Lifestyle - Neudorf, with 2m³/day restrictor, Dovedale Rural Water Supply	$530,000	($35)	($18)	$0	$20	$35

Impact on representative properties

This is the increase/(decrease) for the four representative properties with the highest capital value. This shows the General Rate, and UAGC ($290 currently) combined and excludes all other targeted rates.

Representative Property	Capital Value	UAGC @ $205	UAGC @ $245	UAGC @ $290	UAGC @ $330	UAGC @ $375
Utility	$83,200,000	$7,829	$4,145	$0	($4,605)	($7,829)
Dairy Farm - Collingwood-Bainham	$7,020,000	$583	$308	$0	($343)	($583)
Pastoral Farming - Wakefield, with Water Supply Dams, Wai-iti Valley Community Dam	$2,810,000	$182	$96	$0	($107)	($182)
Horticultural - Hope in WCD EURA	$2,690,000	$171	$90	$0	($100)	($171)

Impact on "average" residential property

This is the increase/(decrease) for residential properties with an "average" capital value. This shows the General Rate, and UAGC combined and excludes all other targeted rates.

Representative Property	Capital Value	UAGC @ $205	UAGC @ $245	UAGC @ $290	UAGC @ $340	UAGC @ $375
Residential - Richmond, with 103m³ of water, Urban Water Supply Metered Connections	$800,000	($9)	($5)	$0	$5	$9
Residential - Kaiteriteri, with 149m³ of water, Urban Water Supply Metered Connections	$910,000	$2	$1	$0	($1)	($2)

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What does all this mean?

Over time, the rates burden has shifted towards higher valued properties. As costs have increased, the proportion of the general rate collected based on property value has increased.

Councils current setting for the UAGC leaves us well below the 30% cap (16%).

<u>What do you need to consider?</u>

- How does setting the level of the UAGC impact our communities current, and future, social economic, environmental, and cultural wellbeing?

- The impact of the UAGC on households and different property types

Feedback heard through submissions

What have we heard from ratepayers through submissions to the Annual Plan?

<u>Federated Farmers – support higher UAGC, and fixed charges</u>
The rural sector, as a generalisation, has higher capital value properties, and arguably in their view has less access to services. A lower or unchanged UAGC, pushes the rates burden towards the rural sector through the capital value-based general rate. The rural sector supports a stronger user pays based system.

<u>Lower capital value property owners – support lower UAGC</u>
There is an assumption that reducing or not increasing the UAGC supports lower income households (via lower rates or rent) on the basis they typically occupy lower capital value properties.

Direction Required

<u>Options</u>

Give staff direction on the UAGC based on current available information

- Retain at 12% of the general rate take ($290)
- Return to 17% of the general rates take as per 2013/14 ($340)
- Give an indication of an alternative percentage of general rates to be collected through the UAGC
- Status quo (and/or re-consider when the results of the revaluation is known)

Combining Fixed Rates

The following District-wide fixed rates could be combined to reduce administrative costs but with a loss of transparency

Rate	Annual Plan 2023/24
Shared Facilities Rate Districtwide	$60.21
District Facilities Rate Districtwide	$133.08
Museums Facilities Rate Districtwide	$70.68
Mapua Rehabilitation Rate Districtwide	$5.09
Waimea Community Dam Districtwide	$65.45

Options for combining fixed rates

	Options	Pros	Cons
1	Do nothing	• Provides transparency on rates assessment	• Large number of targeted rates creates some confusion and increases queries
2	Add to UAGC	• Simplifies rates assessment • Would require UAGC to move with underlying expenditure	• If UAGC is not increased/decreased over time (based on expenditure) the rates burden transfers to the general rate
3	Create reduced number of rates through combination, either singular or groupings	• Simplifies rates assessment • Expenditure still tracked at a cost centre level and each property still pays the same amount of fixed rates	• Reduces transparency on rates assessment
4	Add to general rate (CV)	• Simplifies rates assessment	• Rates burden shifts based on capital value of properties

Staff are supportive of improving administrative efficiency by reducing the number of rates

Direction Required

What is the preferred option?

If Option 3 - Create reduced number of rates through combination, which rate/s should be combined?

Rate	Annual Plan 2023/24
Shared Facilities Rate Districtwide	$60.21
District Facilities Rate Districtwide	$133.08
Museums Facilities Rate Districtwide	$70.68
Mapua Rehabilitation Rate Districtwide	$5.09
Waimea Community Dam Districtwide	$65.45

Other changes

- Staff to undertake a review of the rating map boundaries reflecting any changes in service delivery.
- Te Ture Whenua Māori Act - will impact on our overall Revenue and Financing Policy (as well as potentially the Development and Financial Contributions Policy and Rates Remission Policy)

Current activity funding sources levels

Funding Source	Environment Management	Public Health & Safety	Transportation, Roads and Footpaths	Coastal Assets	Water Supply	Wastewater
General rates, uniform annual general charges, rates penalties	• Medium-High	• Low-Medium	• Medium-High	• Low-Medium to High	• Low	
Targeted rates	• Low			• Low-Medium to High	• High	• Medium-High
Fees and charges	• Low	• Medium-High	• Low		• Low	• Low
Internal charges and overheads recovered						
Subsidies and grants for operating purposes	• Low	• Low	• Low-Medium			
Local authorities fuel tax, fines, infringement fees, and other receipts	• Low	• Low	• Low	• Low	• Low	Low-Medium

Current activity funding sources levels

Funding Source	Stormwater	Waste Management & Minimisation	Rivers	Community Development	Governance	Council Enterprises
General rates, uniform annual general charges, rates penalties		• Low		• Medium-High	• High	• Should reduce general rates with forestry income
Targeted rates	• High	• Low-Medium	• Medium-High to High	• Low-Medium	• Low	
Fees and charges		• Low-Medium to Medium	• Low	• Low	• Low	• Low
Internal charges and overheads recovered				• Low		
Subsidies and grants for operating purposes				• Low	• Low	• Low
Local authorities fuel tax, fines, infringement fees, and other receipts	• Low	• Low-Medium to Medium	• Low-Medium	• Low	• Low	• High

Dynamic Financial Caps

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What are these?

Councillors have requested more information on moving to dynamic Financial caps. These caps are not tied to a specific number but change as the underlying financial metrics move.

Staff have considered options for these financial caps:

- Net Debt Cap
- Rates Cap

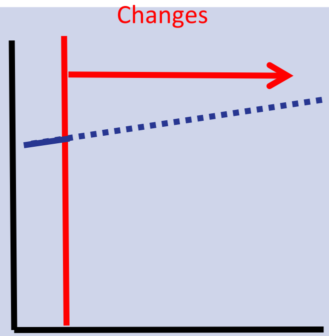
Both these caps are required under the Local Government Act.

Historic Net Debt Cap

In the 2012 LTP we introduced the $200m Cap. In 2021 we increased to the current $250m.

Dynamic debt limit option

This was presented in the first session and agreed to as a way forward.

	Looks like	Pros	Cons	Comments
Dynamic - Ratio of debt to revenue		• Auto adjusts • Allows movement as Council revenue (ability to service) grows • Link to high growth demands and revenue • Common Council & commercial measure	• After initial reduction – will always track upwards • Lack of certainty/ changes annually – actual limit in any year less transparent • Does not account for the cost of servicing debt	• Most common method – 30/33 Councils sampled use this approach

Definitions as per Treasury Policy

The definitions for Net Debt and Revenue are as below:

- Net Debt is External Debt less Liquid Assets eg Cash and investments less than one year
- Revenue is – Total Revenue less Development Contribution (inc RFC's), capital subsidies and vested assets

Discussion Required - Net Debt

The level we choose needs to be prudent and sustainable from a financial perspective.

31 of 34 Councils that we looked at used a dynamic Debt to Revenue ratio. Those ranged from 135% to 210%.

We have looked at four potential settings;

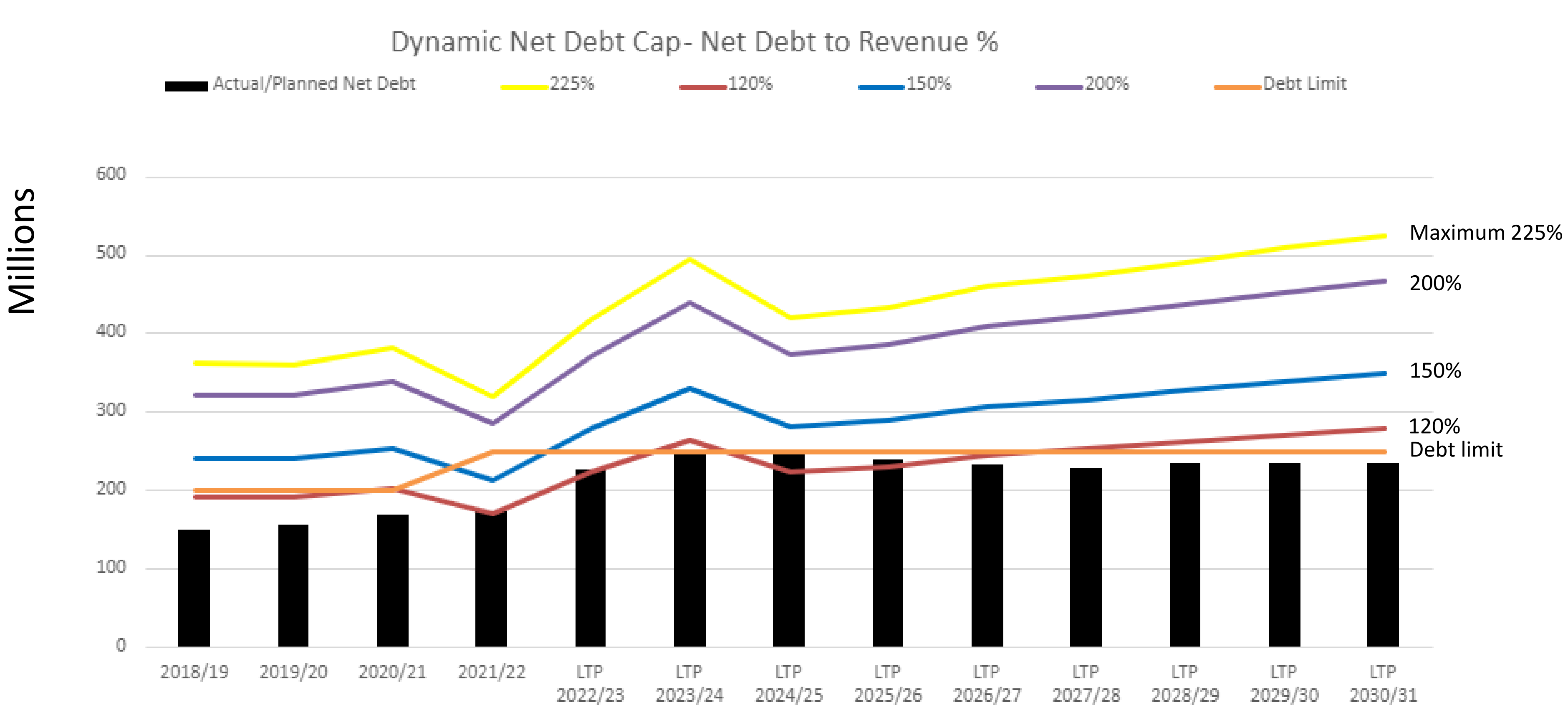
- 225% maximum level per our Treasury Policy and the LGFA covenant
- 200% upper limit
- 150% mid limit
- 120% lower limit

Rather than a single measure, Council could approve a range eg between 120% and 150%.

This can be tweaked but we need a principle-based decision in the first instance. The reality of our financial results for the LTP may make Council reconsider

Graphical Representation

We compared those 4 ratios to our historic revenue levels & with the actual and predicted net debt cap.



Direction Required re Dynamic Net Debt Cap

The net debt headroom would peak for each of the scenarios as below. These caps will change when we get updated financials from the current LTP processes.

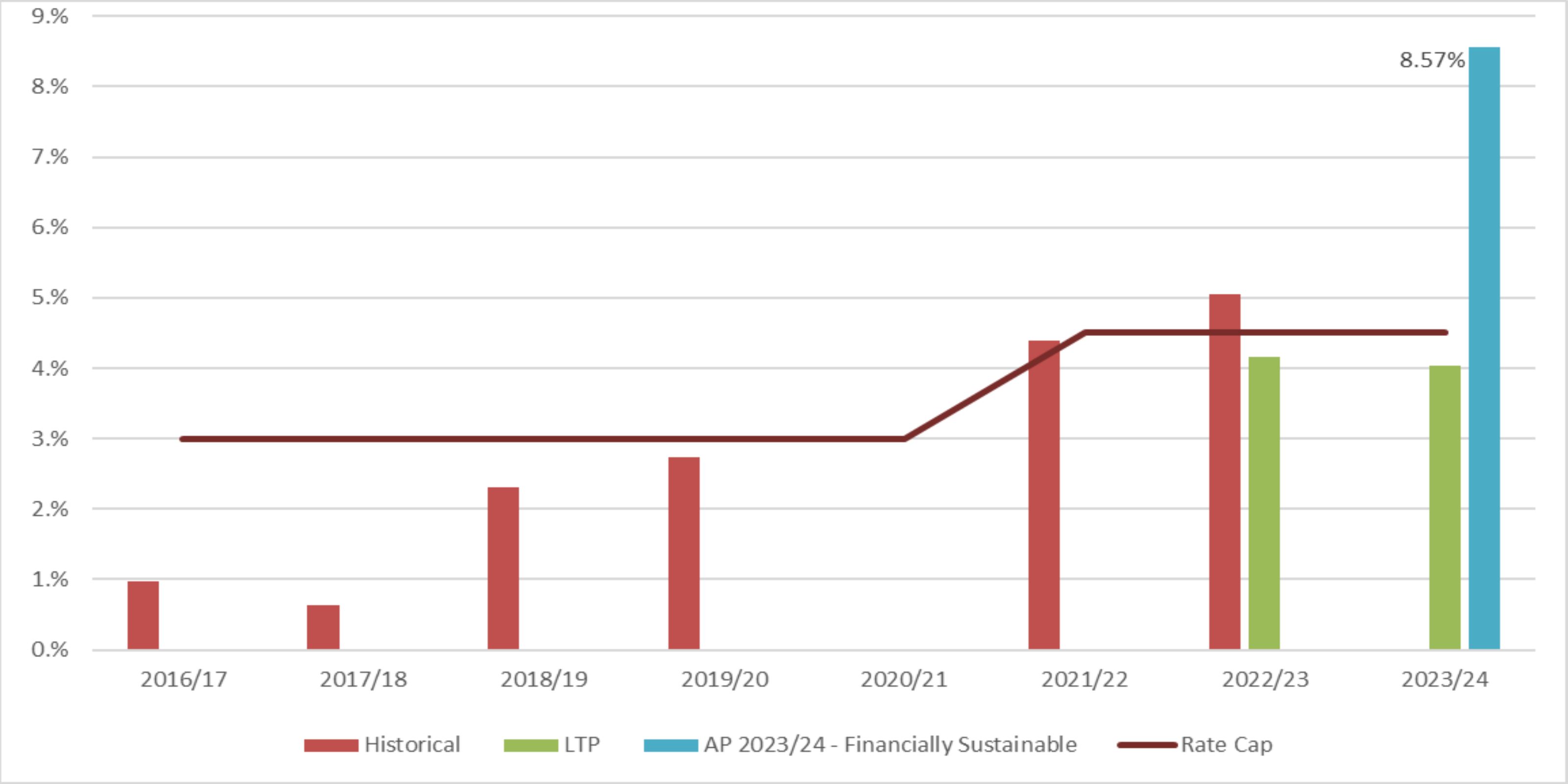
An allowance for future funding uncalled capital in IHL should also be considered in the requited headroom.

What is the preferred level of headroom?
What is the maximum level of debt considered sustainable?

Note: At $525M, debt servicing costs would be $28M per annum.
At $280M, costs would be $15M per annum.

Scenario	2023-24 Peak	Headroom (2023-24)	2030-31 Peak	Headroom (2030-31)
225%	$495M	0	$525M	0
200%	$440M	$55M	$467M	$58M
150%	$320M	$175M	$350M	$175M
120%	$264M	$231M	$280M	$280M

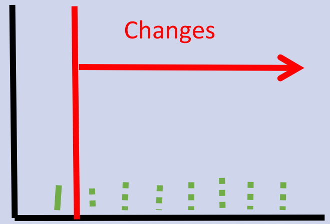
Historic Rates Cap



In 2012 we had a rates cap of 3% after growth. In 2021 we increased to 4.5% for Year 1-3 and 6-10 and to 7% in Year 4 and 5.

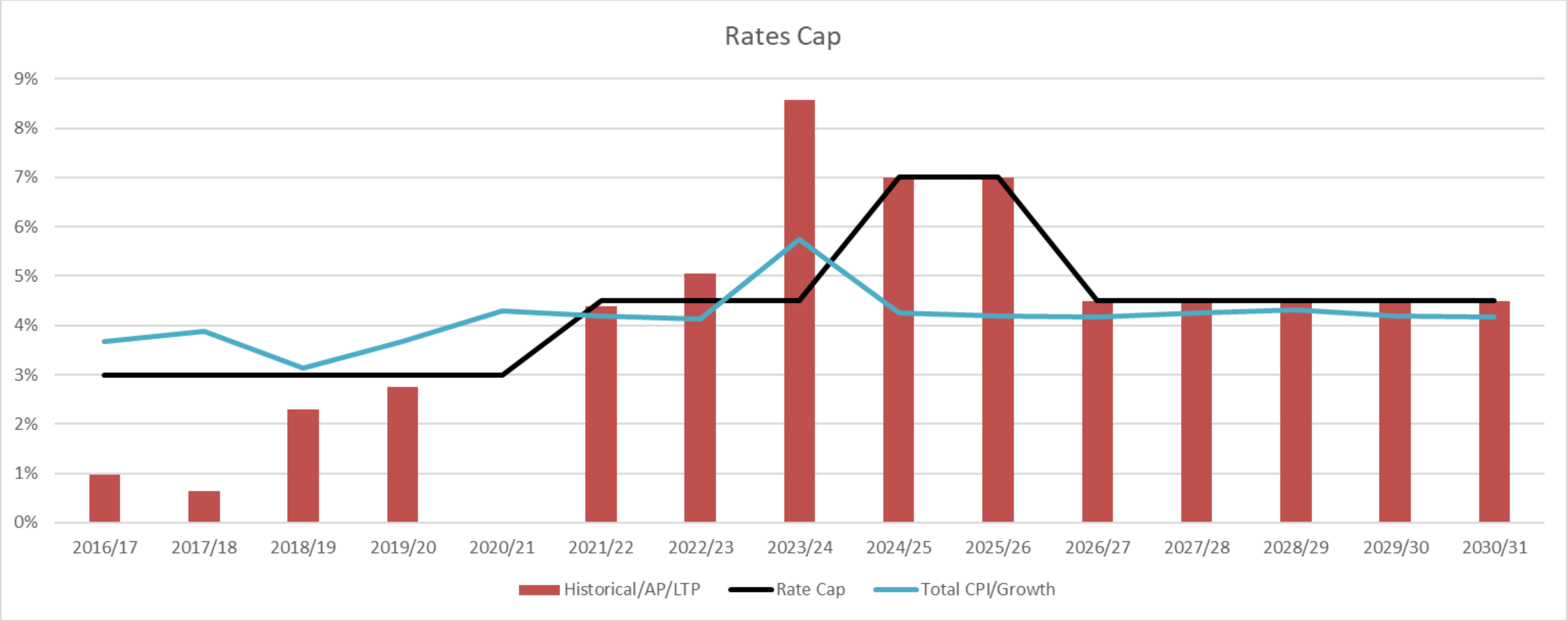
Rates increase limit - Dynamic

This was presented in the first session in May and agreed as the recommended way forward.

	Looks like	Pros	Cons	Other comments
Combined approach: **LGCI + growth**		• Acknowledge cost increases for services • Acknowledges growth increases cost base	• Lack of certainty / changes annually – actual limit in any year less transparent	**Recommended by staff:** • **LGCI adjustor (different) +** • **Growth (same)**

Dynamic Cap

If we moved to a dynamic cap based of the BERL Local Government Cost Index plus growth (from the TDC growth model)



Discussion

A new dynamic rates cap based on inflation and growth would not have accommodated the rate increases necessary since 2021. Rather than a single measure, Council could approve a range.

Council cost increases are not based on a static delivery of services. Service delivery and costs increase over time, this would support a dynamic cap based on three factors.

1. Growth eg 1.8%
2. Local Government Cost Index movements eg 3.2%
3. Adjustment for increasing services eg 3%

Giving a total of increase 8%.

Unless there is an adjustment for increasing services it would mean that levels of services would need to drop or fees and charges would need to be increased to fill the gap.

Reducing the demand for rates income

- Increasing the level of costs met through Fees & Charges.
- Increasing the contribution from Enterprise activities to offset rates (currently 25%).
- Channelling funds into investments to produce future income to offset rates i.e. building a portfolio of income-earning assets over the medium to long term.

Discussion

Discussion Required - Rates

What is Council's preferred approach?

Next Steps – Financial Strategy and RFP

Revenue and Financing Policy

- The Revenue and Financing Policy settings will be tested by reviewing the projected rates levels and the impact of the revaluation late in 2024.

Financial Strategy

- It is important to establish the principles underlying the Financial Strategy now e.g. the fixed or dynamic debt cap to use.
- These then need to be tested through each iteration of the LTP financials starting in September.
- The Draft Financial Strategy to underpin the Consultation Document cannot be finalised until affordable waters impacts have been resolved.

Next Steps – LTP

3 August 2023 – workshop
Civil defence planning and resourcing
Community Grants resourcing
Roles in affordable housing

24 August 2023 – workshop
Development and Financial Contributions Policy
Rates Remission Policy